QUESTIONS AND ANSWERS

(FREQUENTLY ASKED QUESTIONS)

BANK INDONESIA REGULATION NUMBER 21/1/PBI/2019 ON BANK'S EXTERNAL DEBTS AND OTHER LIABILITIES IN FOREIGN CURRENCY

1. What is the background of this Bank Indonesia regulation issuance?

   This Bank Indonesia regulation is issued by considering the following:

   a. It is necessary to strengthen the prudential principles in management of external debts and other liabilities in foreign currency; and
   b. It serves as a more transparent guideline for banks in lodging a request for approval for a market entry plan in line with national economy and banking condition as well as domestic financial market.

2. What are changes in this Bank Indonesia regulation compared to the previous regulation? Main changes in this Bank Indonesia regulation compared to the previous regulation include:

   a. Refined definition and scope of ULN and other liabilities in
   b. foreign currency;
   c. Expanded scope of bank's liabilities to include Risk Participation Ratio
   d. (TPR);
   e. Improved mechanism and consideration basis of Bank Indonesia in granting approval or rejection of a request for a market entry plan to adjust to the latest condition;
   f. Additional exemption of components of bank's short-term liabilities and requirements for a request for approval for a market entry plan;
   g. Supervision by Bank Indonesia;
   h. Improved mechanism and types of sanctions.

3. What does Risk Participation Transaction (TPR) mean?

   TPR means risk transfer transaction of individual credit and/or other facilities based on a master risk participation agreement. Risk transfer is conducted between two parties, namely a party selling risks or grantor and a party purchasing/receiving risks or participant.

TPR in this Bank Indonesia regulation includes TPR which meets the following requirements:

a. it is conducted by a Bank as a grantor with another party, who is a Non-Resident, as a participant.
b. with fund flow from the participant to the Bank as grantor (funded), and
c. without assignment of the right to demand from a Bank as a grantor to participant.

4. Why is Risk Participation Transaction (TPR) included as a transaction whose prudential principles of are regulation herein?

   TPR involves fund flows from a bank overseas to a bank within the country so that it may cause external risks for Indonesia. Books and records do not record TPR as an external debt on a bank's balance sheet or debtor's balance sheet, and therefore, there is no external risk mitigation by the bank or debtor. To mitigate the risks, this Bank Indonesia regulation includes TPR in as a transaction whose prudential principles are regulated.

5. Bank's liabilities excluded from calculation of daily balance ratio of Short-Term Liabilities against bank's capital are ULN Bank's from controlling shareholders to handle bank's difficulty in liquidity or credit extension to real sector. In this exemption, is it possible to equalize the headquarter of a bank's branch office overseas to a controlling shareholder?

   The headquarter of a bank's branch office overseas may not be equalized and is excluded in the definition of controlling shareholders. Therefore, ULN obtained from the bank's headquarter for liquidity or credit extension to real sector shall be excluded from the exempted Short-Term Liabilities.

6. Because there are technical matters, such as mechanism of request for approval for a market entry plan, report on realization to enter the market, and sanction imposition against breach of provisions, will there be further arrangement of this regulation?

   Yes. This Bank Indonesia regulation will be followed by issuance of Regulation of Member Board of Governors specifying more technical matters.